

**WILLARD CITY, UTAH
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORTS
YEAR ENDED JUNE 30, 2005**

**WILLARD CITY, UTAH
YEAR ENDED JUNE 30, 2005**

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INDEPENDENT AUDITOR'S REPORT

Royce J. Richards, J. D., CPA
Lynn J. Wood, CPA

Honorable Mayor and City Council
Willard City, UT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Willard City, Utah, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Willard City, Utah's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Willard City, Utah, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standard*, we have also issued our report dated September 13, 2005, on our consideration of Willard City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 7 and pages 35 through 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Willard City, Utah basic financial statements.

Wood Richards & Associates

Ogden, Utah
September 13, 2005

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

WILLARD CITY MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005

The management of Willard City offers the readers of the Willard City financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2005.

This report form was introduced in 2004 and is designed to provide more information on the city's activities and is classified in the following manner:

Government activities - refer to general administration, parks, streets, fire etc.

Business type activities - refer to operations such as water.

FINANCIAL HIGHLIGHTS

- ◆ The total net assets of Willard City exceeded its liabilities as of the close of the most recent year by \$3,184,699. Of this amount \$791,117 are unrestricted net assets and may be used to meet the government's ongoing obligations to its citizens.
- ◆ The total net assets of \$ 3,184,699 is made up of \$2,196,372 in capital assets net of related debt and \$988,327 in other net assets
- ◆ The total long-term liabilities of the City decreased by \$38,774 due to regular principal payments.
- ◆ At the close of the current year, Willard City governmental funds reported an ending fund balance of \$636,422 an increase of \$40,288 in comparison with the prior year.

REPORTING THE CITY AS A WHOLE

In addition to the Management's Discussion and Analysis (MD&A), the basic financial statements contain three basic components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The first several statements are condensed and present a government-wide view of the City's finances. This view categorizes the City operations as either governmental or business-type activities. Governmental activities include basic services such as police, fire and inspection, public works, parks and recreation, and general government administration. The business-type activities include water and garbage services funded by user fees.

The government-wide financial statements are designed to provide readers with a broad overview of Willard City's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of Willard City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Willard City is improving or deteriorating.

**WILLARD CITY
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Both of the government-wide financial statements distinguish functions of Willard City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Willard City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and enterprise funds.

- ◆ *Government funds* are used to account for the same functions reported as governmental activities in the government-wide financial statements. These funds focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

Both the General Fund and the Capital Projects Fund are considered to be major governmental funds.

- ◆ *Proprietary (Enterprise) funds* - Willard City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities as in the government-wide financial statements. Willard City uses the enterprise fund to account for its Water and Garbage Utility. As determined by generally accepted accounting principles, the enterprise fund meets the criteria of major fund classification.

**WILLARD CITY
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Willard City, assets exceed liabilities by \$3,184,699.

By far the largest portion of Willard City's net assets reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, machinery and equipment, less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A condensed Statement of Net Assets follows:

Net Assets at Year-End

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Cash	\$ 592,839	\$ 544,943	\$ 354,606	\$ 320,243	\$ 947,445	\$ 865,186
Accounts Receivable	47,257	51,191	32,800	33,429	80,057	84,620
Capital Assets	765,600	577,773	2,236,604	2,289,385	3,002,204	2,867,158
Total Assets	1,405,696	1,173,907	2,624,010	2,643,057	4,029,706	3,816,964
Accounts Payable	3,674	-	35,501	-	39,175	-
Long-term Liabilities	-	-	805,832	844,606	805,832	844,606
Total Liabilities	3,674	-	841,333	844,606	845,007	844,606
Net Assets:						
Invested in Capital Assets, Net of Related Debt	765,600	577,773	1,430,772	1,444,779	2,196,372	2,022,552
Restricted	137,210	119,558	60,000	53,344	197,210	172,902
Unrestricted	499,212	476,576	291,905	300,328	791,117	776,904
Total Net Assets	\$1,402,022	\$1,173,907	\$1,782,677	\$1,798,451	\$3,184,699	\$2,972,358

**WILLARD CITY
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

A condensed Statement of Activities follows:

Net Assets at Year-End

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues						
Charges for Services	\$ 198,258	\$ 201,578	\$ 333,950	\$ 338,408	\$ 532,208	\$ 539,986
Grants and Contributions	165,458	84,485	-	-	165,458	84,485
General Revenues:						
Taxes	355,804	303,660	-	-	355,804	303,660
Interest	15,889	9,625	821	1,825	16,710	11,450
Miscellaneous	9,366	25,902	-	1,194	9,366	27,096
Total Revenues	744,775	625,250	334,771	341,427	1,079,546	966,677
Expenses						
General Government	186,002	220,698	-	-	186,002	220,698
Police	138,006	142,464	-	-	138,006	142,464
Fire	53,513	55,743	-	-	53,513	55,743
Highways and Public Improvements	107,627	150,589	-	-	107,627	150,589
Parks	31,512	19,278	-	-	31,512	19,278
Water	-	-	262,879	235,810	262,879	235,810
Refuse	-	-	52,165	51,731	52,165	51,731
Total Expenses	516,660	588,772	315,044	287,541	831,704	876,313
Change in Net Assets	228,115	36,478	19,727	53,886	247,842	90,364
Prior Period Adjustment	-	-	(35,501)	-	(35,501)	-
Beginning Net Assets	1,173,907	1,137,429	1,762,950	1,744,565	2,936,857	2,881,994
Ending Net Assets	\$1,402,022	\$1,173,907	\$1,782,677	\$1,798,451	\$3,184,699	\$2,972,358

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balance of spendable resources. Such information is useful in assessing the City's financing requirements.

As of June 30, 2005, Willard City's Governmental Funds (General and Capital Projects) reported a combined ending fund balance of \$636,422 an increase of \$40,288 in comparison with the prior year.

**WILLARD CITY
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

Approximately 77% of this amount \$488,188 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of the balance is *reserved* to indicate that it has already been committed to: 1) public improvements 2) Road projects.

The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 48% of the total general fund revenues. This compares with 49% in the prior fiscal year ended June 30, 2004. The major source of tax revenue comes from sales & use taxes and is 51% of the tax revenue.

As stated earlier, the City maintains the Enterprise fund to account for the business-type activities of the City. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

Major capital asset events during the fiscal year ending June 30, 2005, included the following:

- \$212,500 Storm drain project 200 S and 200 E
- \$12,000 Purchase of playground equipment for Willow Creek Park (a 50% match grant was received on this project)
- \$18,000 Purchase of a 1987 Pierce Pumper fire truck.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Land	\$53,000	\$70,500
Land Improvements	51,937	
Buildings	349,047	
Machinery and Equipment	502,569	101,567
Water System		3,110,234
Infrastructure	948,535	
Less Accumulated Depreciation	<u>(1,139,488)</u>	<u>(1,045,697)</u>
Total Capital Assets, Net	<u>\$765,600</u>	<u>\$2,236,604</u>

**WILLARD CITY
MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt - June 30, 2005, the City had total bonded debt outstanding of \$805,832. The total amount is debt which is secured solely by specific revenue sources (revenue bonds). The General fund for governmental activities had no debt.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Revenue bond series 2002		\$363,000
Revenue bond series 1995		353,763
Revenue bond series 1995 B		89,069
Total	\$ <u>0</u>	<u>\$805,832</u>

The City's bonded debt decreased by \$38,774 during the fiscal year.

Additional information on the outstanding debt obligations of the City can be found in the footnotes of this report.

Request for information - This financial report is designed to provide a general overview of Willard City's finances for all those who are interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Willard City Recorder, PO Box 593, Willard, UT 84340

BASIC FINANCIAL STATEMENTS

**WILLARD CITY
STATEMENT OF NET ASSETS
JUNE 30, 2005**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash	\$ 592,839	\$ 354,606	\$ 947,445
Accounts Receivable (Net)	-	32,800	32,800
Accounts Receivable - Intergovernmental	47,257	-	47,257
Total Current Assets	<u>640,096</u>	<u>387,406</u>	<u>1,027,502</u>
Noncurrent Assets:			
Capital Assets:			
Land	53,000	70,500	123,500
Land Improvements	51,937	-	51,937
Buildings	349,047	-	349,047
Machinery and Equipment	502,569	101,567	604,136
Water System	-	3,110,234	3,110,234
Infrastructure	948,535	-	948,535
Less Accumulated Depreciation	(1,139,488)	(1,045,697)	(2,185,185)
Total Capital Assets, Net	<u>765,600</u>	<u>2,236,604</u>	<u>3,002,204</u>
Total Assets	<u>1,405,696</u>	<u>2,624,010</u>	<u>4,029,706</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	3,674	35,501	39,175
Total Current Liabilities	<u>3,674</u>	<u>35,501</u>	<u>39,175</u>
Noncurrent Liabilities			
Due Within One Year	-	40,132	40,132
Due in More Than One Year	-	765,700	765,700
Total Liabilities	<u>3,674</u>	<u>841,333</u>	<u>845,007</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	765,600	1,430,772	2,196,372
Restricted For:			
Debt Service	-	60,000	60,000
Class "C" Roads	113,610	-	113,610
Hargis Hill Approach	23,600	-	23,600
Unrestricted	499,212	291,905	791,117
Total Net Assets	<u>\$ 1,402,022</u>	<u>\$ 1,782,677</u>	<u>\$ 3,184,699</u>

The accompanying notes are an integral part of these financial statements.

**WILLARD CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$ 186,002	\$ 13,012	\$ 1,277	\$ -
Public Safety:				
Police	138,006	146,820	-	-
Fire	53,513	9,906	-	109,000
Highways and Public Improvement	107,627	17,673	55,181	-
Parks	31,512	10,847	-	-
Total Governmental Activities	516,660	198,258	56,458	109,000
Business-type Activities				
Water	262,879	272,822	-	-
Refuse	52,165	61,128	-	-
Total Business-type Activities	315,044	333,950	-	-
Total Government	\$ 831,704	\$ 532,208	\$ 56,458	\$ 109,000

General Revenues:

Taxes

 Property

 Sales and Use

 Franchise

 Vehicle in Lieu

Interest and Investment Earnings

Miscellaneous

Total General Revenues

 Change in Net Assets

Net Assets at Beginning of Year

 Prior Period Adjustment

Net Assets - Beginning Restated

Net Assets at End of Year

The accompanying notes are an integral part of these financial statements.

Changes in Net Assets

<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
\$ (171,713)	\$ -	\$ (171,713)
8,814	-	8,814
65,393	-	65,393
(34,773)	-	(34,773)
(20,665)	-	(20,665)
<u>(152,944)</u>	<u>-</u>	<u>(152,944)</u>
-	9,943	9,943
-	8,963	8,963
-	18,906	18,906
<u>(152,944)</u>	<u>18,906</u>	<u>(134,038)</u>
54,598	-	54,598
181,794	-	181,794
102,861	-	102,861
16,551	-	16,551
15,889	821	16,710
9,366	-	9,366
<u>381,059</u>	<u>821</u>	<u>381,880</u>
228,115	19,727	247,842
1,173,907	1,798,451	2,972,358
-	(35,501)	(35,501)
<u>1,173,907</u>	<u>1,762,950</u>	<u>2,936,857</u>
<u>\$ 1,402,022</u>	<u>\$ 1,782,677</u>	<u>\$ 3,184,699</u>

WILLARD CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2005

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 203,689	\$ 389,150	\$ 592,839
Accounts Receivable - Intergovernmental	47,257	-	47,257
TOTAL ASSETS	<u>\$ 250,946</u>	<u>\$ 389,150</u>	<u>\$ 640,096</u>
LIABILITIES			
Accounts payable	\$ 3,674	\$ -	\$ 3,674
TOTAL LIABILITIES	<u>3,674</u>	<u>-</u>	<u>3,674</u>
FUND BALANCES			
Reserved for:			
Class C Roads	113,610	-	113,610
Construction	4,486	-	4,486
Hargis Hill Approach	23,600	-	23,600
Unreserved	105,576	389,150	494,726
TOTAL FUND BALANCES	<u>247,272</u>	<u>389,150</u>	<u>636,422</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 250,946</u>	<u>\$ 389,150</u>	<u>\$ 640,096</u>

The accompanying notes are an integral part of these financial statements.

WILLARD CITY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Amounts reported for governmental activities in the
statement of net assets are different because:

Total fund balances--total governmental funds	\$ 636,422
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Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.	765,600
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	-
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Net assets of governmental activities	<u>\$ 1,402,022</u>
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The accompanying notes are an integral part of these financial statements.

WILLARD CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes	\$ 355,804	\$ -	\$ 355,804
Licenses and Permits	23,482	-	23,482
Intergovernmental	165,458	-	165,458
Charges for services	27,956	-	27,956
Fines	146,820	-	146,820
Other Revenues	25,255	-	25,255
Total Revenues	<u>744,775</u>	<u>-</u>	<u>744,775</u>
EXPENDITURES			
Current Operating:			
General Government	182,812	-	182,812
Public Safety	155,628	-	155,628
Highways and Public Improvements	87,589	-	87,589
Parks	29,395	-	29,395
Capital Projects	-	249,063	249,063
Total Expenditures	<u>455,424</u>	<u>249,063</u>	<u>704,487</u>
Excess of Revenues Over (Under) Expenditures	289,351	(249,063)	40,288
OTHER FINANCING SOURCES (USES)			
Transfers-In	-	252,857	252,857
Transfers-Out	(252,857)	-	(252,857)
Total Other Financing Sources (Uses)	<u>(252,857)</u>	<u>252,857</u>	<u>-</u>
Net Change in Fund Balances	36,494	3,794	40,288
Fund Balances at Beginning of Year	<u>210,778</u>	<u>385,356</u>	<u>596,134</u>
Fund Balances at End of Year	<u><u>\$ 247,272</u></u>	<u><u>\$ 389,150</u></u>	<u><u>\$ 636,422</u></u>

The accompanying notes are an integral part of these financial statements.

WILLARD CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balance, total governmental funds \$ 40,288

Amounts reported for governmental activities
in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlays	257,246	
Depreciation Expense	<u>(69,419)</u>	<u>187,827</u>

Change in net assets of governmental activities \$ 228,115

The accompanying notes are an integral part of these financial statements.

**WILLARD CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005**

	<u>Utility</u>
ASSETS	
Current Assets:	
Cash	\$ 354,606
Accounts Receivable (Net)	<u>32,800</u>
Total Current Assets	<u>387,406</u>
Noncurrent Assets:	
Capital Assets	
Land	70,500
Equipment	101,567
Water System	3,110,234
Less Accumulated Depreciation	<u>(1,045,697)</u>
Total Capital Assets, Net	<u>2,236,604</u>
Total Assets	<u>\$ 2,624,010</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 35,501
Current Portion of Long-Term Obligations	<u>40,132</u>
Total Current Liabilities	<u>75,633</u>
Noncurrent Liabilities:	
Long-Term Obligations, Net of Current Portion	<u>765,700</u>
Total Liabilities	<u>841,333</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	1,430,772
Restricted for Debt Service	60,000
Unrestricted	<u>291,905</u>
Total Net Assets	<u>1,782,677</u>
Total Liabilities and Net Assets	<u>\$ 2,624,010</u>

The accompanying notes are an integral part of these financial statements.

WILLARD CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Utility</u>
Operating Revenues:	
Charges for Services:	
Water	\$ 242,043
Refuse	61,128
Total Operating Revenues	<u>303,171</u>
Operating Expenses:	
Salaries and Benefits	56,578
Utilities	46,420
Contracted Services	49,054
Supplies and Maintenance	29,729
Depreciation	72,658
Insurance and Surety Bonds	17,785
Total Operating Expenses	<u>272,224</u>
Operating Income (Loss)	30,947
Nonoperating Revenues (Expenses)	
Connection Fees	3,515
Impact Fees	27,264
Interest Revenue	821
Interest Expense	(42,820)
Total Nonoperating Revenues (Expenses)	<u>(11,220)</u>
Change in Net Assets	19,727
Total Net Assets - Beginning	1,798,451
Prior Period Adjustment	(35,501)
Total Net Assets - Beginning Restated	<u>1,762,950</u>
Total Net Assets - Ending	<u><u>\$ 1,782,677</u></u>

The accompanying notes are an integral part of these financial statements.

WILLARD CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Utility</u>
Cash Flows from Operating Activities	
Cash Received From Customers	\$ 303,800
Cash Paid to Suppliers	(142,988)
Cash Paid to Employees	(56,578)
Net Cash Provided (Used) by Operating Activities	<u>104,234</u>
Cash Flows from Noncapital Financing Activities	
Transfers In	-
Transfers Out	-
Net Cash Used in Noncapital Financing Activities	<u>-</u>
Cash Flows from Capital and Related Financing Activities	
Principal Payments - Bonds	(38,774)
Interest Paid	(42,820)
Acquisition of Capital Assets	(19,877)
Impact Fees Collected	27,264
Collection Fees Collected	3,515
Net Cash Used in Capital and Related Financing Activities	<u>(70,692)</u>
Cash Flows from Investing Activities	
Interest on Investments	821
Net Cash Provided by Investing Activities	<u>821</u>
Net Increase (Decrease) in Cash	34,363
Cash - July 1	<u>320,243</u>
Cash - June 30	<u><u>\$ 354,606</u></u>
 Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ 30,947
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities	
Depreciation	72,658
Changes in Assets and Liabilities:	
Accounts Receivable	629
Net Cash Provided by Operating Activities	<u><u>\$ 104,234</u></u>

The accompanying notes are an integral part of these financial statements.

WILLARD CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The government is a municipal corporation governed by an elected mayor and council. The City was founded March 31, 1851. The City provides the following services as authorized by its charter: Public safety (police and fire), public utilities (water and refuse), highways and streets, social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable that do not conflict with or contradict GASB pronouncements). Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

In defining the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Board (GASB).

B. Basic Financial Statements

The City's basic financial statements consist of the government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

Statement of Net Assets - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end.

WILLARD CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basic Financial Statements (continued)

Statement of Activities - The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column.

D. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts.

There are three categories of funds: governmental, proprietary, and fiduciary. The following fund types are used by the City:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

General fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

WILLARD CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Fund Accounting (continued)

Capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds).

Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations.

Proprietary Funds are required to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's various departments. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The following is a description of the proprietary fund of the City.

Utility Fund is used to account for the provision of water and refuse services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and refuse system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

WILLARD CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

Government-wide financial statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and refuse services which are accrued. Expenses are recognized at the time a liability is incurred.

Fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available").

"Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period. The government considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, franchise taxes, licenses, and interest are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

WILLARD CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, Liabilities and Equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

2. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

3. Receivables and Payables

In the government-wide statements, receivables consist of all revenues earned at year end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

4. Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statement for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more and over three years of useful life. Infrastructure assets capitalized have an original cost of \$100,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method.

WILLARD CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, Liabilities and Equity (continued)

4. Capital Assets (continued)

Estimated useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Buildings	50
Water system	50
Infrastructure	20
Equipment	7

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

5. Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

WILLARD CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, Liabilities and Equity (continued)

6. Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints in place on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

It is the City's policy to first apply restricted resources rather than unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

7. Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

WILLARD CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, Liabilities and Equity (continued)

7. Interfund Transactions (continued)

All other interfund transactions, except quasi-external transactions and reimbursement, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as non-operating transfers.

8. Property Tax

Real property taxes are collected by the County Treasurer and remitted to the City after collection. Taxes are due and payable on November 1st and delinquent after 12 o'clock noon on November 30th of each year. The tax levy is established by June 15th with a lien date of January 1st. Property tax revenue is not recognized when levied, because it is not expected to be collected within 60 days after the end of the fiscal year.

9. Operating Revenues and Expenses

Operating revenues and expenses in the proprietary funds consist of those revenues that result from the ongoing principal operations of the City. Operating revenues consist of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budget Information

Annual budgets are prepared and adopted in accordance with the "Uniform Fiscal Procedures Act for Utah cities" by the Willard City Municipal Council on or before June 22nd for the following fiscal year which begins on July 1. Budgets may be increased by resolution of the Municipal Council at any time during the year, following a public hearing. Budgets are adopted at sub-department levels; however budget amendments by resolution are generally required only if the department desires to exceed its total budget appropriation.

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

WILLARD CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

A. Budget Information (continued)

1. On or before May 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to the formal adoption of the budget the City Council will hold budget workshop meetings which are open to the public.
3. Prior to June 22nd the City Council sets a date for a public budget hearing at which time taxpayers' comments are heard. Copies of the proposed budget are made available for public inspection 10 days prior to the budget hearing. At the conclusion of the budget hearing the budget, as amended, is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund and Enterprise Funds.
5. Budgets for the General Fund are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). Budgets for the proprietary fund types are prepared using the accrual basis of accounting except that depreciation for all proprietary fund types are not budgeted. Budgeted amounts are as originally adopted, or as amended by the City Council during the 2004/2005 fiscal year.
6. Unencumbered budget appropriations lapse at the end of the fiscal year.

B. Fund Equity Restrictions

Reserved for Class "C" Roads - The State of Utah remits a portion of license fees paid and gasoline taxes collected to local units of government as Class "C" Road Funds to be used for the construction and maintenance of roads within the boundaries of the local jurisdiction. All unexpended funds that have been received are reserved at the end of the fiscal year to be appropriated in subsequent budget years.

Reserved for Hargis Hill Approach - A grant was received in FY 2002 for the Hargis Hill Approach. A reserve has been created for the spending of this grant.

Reserved for Debt Service - The covenants of the outstanding water revenue bonds require that a debt service reserve of \$60,000 be established and maintained throughout the remaining life of these bonds.

WILLARD CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

A. Deposits and Investments

The City maintains a cash and investment pool that is available for use by all funds. Cash includes amounts in demand deposits as well as time deposits. Investments are stated at cost or amortized cost, which approximates fair value. Each fund's portion of this pool is displayed as "Cash and Cash Equivalents" which also includes cash accounts that are separately held by some of the City's funds. Deposits are not collateralized nor are they required to be by State statute.

The City follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. This Act requires the depositing of city funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial credit risk – Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2005, \$184,143 of the City's bank balances of \$284,143 was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes and other evidence of indebtedness of political subdivision of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund (PTIF).

WILLARD CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

A. Deposits and Investments (continued)

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated*, 1953, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF Investment pool is approximately equal to the value of the pool shares.

As of June 30, 2005, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)				Quality Ratings
		Less than 1	1-5	6-10	More than 10	
PTIF Investments	751,683	751,683	-	-	-	not rated
	751,683	751,683	-	-	-	

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City manages its exposure to declines in fair value by investing mainly in the Utah Public Treasurers Investment Fund and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the City's investments are noted in the previous table.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar held in the portfolio. The City's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

WILLARD CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

A. Deposits and Investments (continued)

Custodial credit risk (investments) – For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. The City's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

Components of cash and investments (including interest earning deposits) at June 30, 2005, are as follows:

Cash on hand and on deposit:	
Cash on deposit	\$ 195,762
PTIF investment	751,683
	<hr/>
Total cash and investments	\$ 947,445

Cash and investments are included in the accompanying combined statement of net assets as follows:

Cash	\$ 947,445
	<hr/>
Total cash and investments	\$ 947,445

B. Accounts Receivable

Accounts receivable for the City, including the applicable allowance for uncollectible accounts at June 30, 2005, are as follows:

	General	Water	Total
Receivables	\$ -	\$ 32,800	\$ 32,800
Intergovernmental	47,257	-	47,257
Gross receivables	47,257	32,800	80,057
Less: Allowance for uncollectibles	-	-	-
Net total receivables	\$ 47,257	\$ 32,800	\$ 80,057

The City had no interfund receivables as of June 30, 2005.

WILLARD CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

C. Capital Assets

A summary of changes in capital assets follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 53,000	\$ -	\$ -	\$ 53,000
Total capital assets, not being depreciated	53,000	-	-	53,000
Capital assets, being depreciated				
Infrastructure	736,000	212,535	-	948,535
Improvements	40,000	11,937	-	51,937
Buildings	349,047	-	-	349,047
Machinery and Equipment	469,795	32,774	-	502,569
Total capital assets, being depreciated	1,594,842	257,246	-	1,852,088
Accumulated Depreciation for:				
Infrastructure	(679,562)	(9,349)	-	(688,911)
Improvements	(14,258)	(1,397)	-	(15,655)
Buildings	(135,359)	(6,981)	-	(142,340)
Machinery and Equipment	(240,890)	(51,692)	-	(292,582)
Total accumulated depreciation	(1,070,069)	(69,419)	-	(1,139,488)
Total capital assets, being depreciated, net	524,773	187,827	-	712,600
Governmental activities capital assets, net	<u>\$ 577,773</u>	<u>\$187,827</u>	<u>\$ -</u>	<u>\$ 765,600</u>

WILLARD CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

C. Capital Assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 70,500	\$ -	\$ -	\$ 70,500
Total capital assets, not being depreciated	70,500	-	-	70,500
Capital assets, being depreciated				
Water System	3,102,592	7,642	-	3,110,234
Machinery and Equipment	89,333	12,234	-	101,567
Total capital assets, being depreciated	3,191,925	19,876	-	3,211,801
Accumulated Depreciation for:				
Water System	(894,247)	(66,644)	-	(960,891)
Machinery and Equipment	(78,792)	(6,014)	-	(84,806)
Total accumulated depreciation	(973,039)	(72,658)	-	(1,045,697)
Total capital assets, being depreciated, net	2,218,886	(52,782)	-	2,166,104
Business-type activities capital assets, net	<u>\$2,289,386</u>	<u>\$(52,782)</u>	<u>\$ -</u>	<u>\$2,236,604</u>

Depreciation Expense was charged to functions/departments of the primary government as follows:

Governmental Activities:

General Government	3,190
Police	12,525
Fire	23,366
Highways and Public Improvements	28,221
Parks	2,117

Total Depreciation Expense \$69,419

Business-type Activities:

Water Fund \$72,658

WILLARD CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

D. Interfund Transfers

The following summarizes interfund transfers made:

	Transfers In			
	General Fund	Capital Projects Fund	Utility Fund	Total
Transfers Out				
General Fund	\$ -	\$ 252,857	\$ -	\$ 252,857
Capital Projects Fund	-	-	-	-
Utility Fund	-	-	-	-
	<u>\$ -</u>	<u>\$ 252,857</u>	<u>\$ -</u>	<u>\$ 252,857</u>

The above transfer resulted from the normal course of the City's operation.

E. Long-Term Debt

Revenue Bonds. The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year end are as follows:

Utility Fund

5.00% water revenue bonds series 2001	
Issued September 1, 2001	
Matures September 1, 2012	\$363,000
5.25% water revenue bonds series 1995	
Issued November 17, 1995	
Matures October 17, 2035	353,763
5.125% water revenue bonds series 1995 B	
Issued November 17, 1995	
Matures October 17, 2035	<u>89,069</u>
	<u>\$ 805,832</u>

WILLARD CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

E. Long-Term Debt (continued)

The annual requirements to amortize the bonds are as follows:

2001 Water Revenue Bonds 5.00%			
Year Ended June 30,	Principal	Interest	Total
2006	33,000	18,150	51,150
2007	36,000	16,500	52,500
2008	37,000	14,700	51,700
2009	39,000	12,850	51,850
2010	50,000	10,900	60,900
2011-2013	168,000	17,120	185,120
Totals	\$ 363,000	\$ 90,220	\$ 453,220

1995 Water Revenue Bonds 5.25%			
Year Ended June 30,	Principal	Interest	Total
2006	5,773	18,179	23,952
2007	6,079	17,873	23,952
2008	6,402	17,550	23,952
2009	6,741	17,211	23,952
2010	7,099	16,853	23,952
2011-2015	41,554	78,206	119,760
2016-2020	53,799	65,961	119,760
2021-2025	69,655	50,105	119,760
2026-2030	90,194	29,566	119,760
2031-2035	66,467	5,453	71,920
Totals	\$ 353,763	\$ 316,957	\$ 670,720

WILLARD CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

E. Long-Term Debt (continued)

<u>1995B Water Revenue Bonds 5.125%</u>			
<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	1,359	4,533	5,892
2007	1,430	4,462	5,892
2008	1,505	4,387	5,892
2009	1,584	4,308	5,892
2010	1,667	4,225	5,892
2011-2015	9,744	19,716	29,460
2016-2020	12,583	16,877	29,460
2021-2025	16,250	13,210	29,460
2026-2030	20,984	8,476	29,460
2031-2035	21,963	2,461	24,424
Totals	\$ 89,069	\$ 82,655	\$ 171,724

Changes in Long-Term Liabilities - During the year, the following changes occurred in long-term liabilities:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2005</u>	<u>Amounts Due Within One Year</u>
Business-type Activities:					
5.00% Water Revenue Bonds	\$395,000	\$ -	\$ (32,000)	\$363,000	\$ 33,000
5.25% Water Revenue Bonds	359,246	-	(5,483)	353,763	5,773
5.125% Water Revenue Bonds	90,360	-	(1,291)	89,069	1,359
Total Business-type Activities	\$844,606	\$ -	\$ (38,774)	\$805,832	\$ 40,132

F. Retirement System

Plan Description. Willard City contributes to the Local Governmental Noncontributory Retirement System and the Public Safety Retirement System for employers with Social Security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

WILLARD CITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

F. Retirement System (continued)

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System and the Public Safety Retirement System for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-356-8772.

Funding Policy. Plan members in the Local Governmental Noncontributory Retirement System are not required to contribute to the plan. Willard City is required to contribute 11.09% of their annual covered salary. In the Public Safety Retirement System for employers with Social Security coverage contributory division members are not required to contribute to the plan. Willard City is required to contribute 19.08% of their annual covered salary for members in the noncontributory division. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Willard City's contributions to the Noncontributory Retirement System the Contributions for June 30, 2005, 2004 and 2003 were \$12,667, \$10,708, and \$7,307, respectively and for the Public Safety Retirement System the contributions for June 30, 2005, 2004 and 2003 were \$11,390, \$10,421, and \$8,922, respectively. The contributions were equal to the required contributions for each year.

G. Risk Management – Claims and Judgments

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City maintains commercial insurance for all major programs. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the prior year.

H. Prior Period Adjustment

The City recorded a prior period adjustment of \$35,501 to the Utility Fund. The City previously recorded that money as revenue, but the City is no longer entitled to those funds.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

WILLARD CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Property Taxes	\$ 65,000	\$ 65,000	\$ 71,149	\$ 6,149
Sales Tax	145,000	145,000	181,794	36,794
Franchise Tax	86,000	86,000	102,861	16,861
	<u>296,000</u>	<u>296,000</u>	<u>355,804</u>	<u>59,804</u>
Licenses and Permits:				
Business Licenses	2,300	2,300	3,080	780
Building Permits	20,000	20,000	17,673	(2,327)
Miscellaneous Licenses	2,000	2,000	2,729	729
	<u>24,300</u>	<u>24,300</u>	<u>23,482</u>	<u>(818)</u>
Intergovernmental:				
Class "C" Road	63,000	63,000	55,181	(7,819)
State Liquor Allotment	2,284	2,284	1,277	(1,007)
Grants	2,221	2,221	109,000	106,779
	<u>67,505</u>	<u>67,505</u>	<u>165,458</u>	<u>97,953</u>
Charges for Services:				
Planning and Zoning	2,500	2,500	2,717	217
Fire Protection	8,000	8,000	9,906	1,906
Parks and Recreation	10,000	10,000	10,847	847
Miscellaneous	-	-	4,486	4,486
	<u>20,500</u>	<u>20,500</u>	<u>27,956</u>	<u>2,970</u>
Fines and Forfeitures	<u>115,000</u>	<u>115,000</u>	<u>146,820</u>	<u>31,820</u>
Other Revenues:				
Interest Earnings	8,000	8,000	15,889	7,889
Sundry	8,000	8,000	9,366	1,366
	<u>16,000</u>	<u>16,000</u>	<u>25,255</u>	<u>9,255</u>
Total Revenues	<u>\$ 539,305</u>	<u>\$ 539,305</u>	<u>\$ 744,775</u>	<u>\$ 200,984</u>

WILLARD CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures:				
General Government:				
Administrative	\$ 125,700	\$ 126,200	\$ 113,721	\$ 12,479
Municipal Court	59,800	60,500	54,039	6,461
Buildings	17,950	17,950	15,052	2,898
	<u>203,450</u>	<u>204,650</u>	<u>182,812</u>	<u>21,838</u>
Public Safety:				
Police Department	149,264	149,264	125,481	23,783
Fire Department	31,721	31,721	30,147	1,574
	<u>180,985</u>	<u>180,985</u>	<u>155,628</u>	<u>25,357</u>
Highways and Public Improvements:				
Streets	119,600	122,000	87,589	34,411
Parks and Recreation	35,270	35,270	29,395	5,875
Total Expenditures	<u>539,305</u>	<u>542,905</u>	<u>455,424</u>	<u>87,481</u>
Other financing sources (uses):				
Operating transfers in (out)	<u>(252,857)</u>	<u>(252,857)</u>	<u>(252,857)</u>	<u>-</u>
Total other financing sources (uses)	<u>(252,857)</u>	<u>(252,857)</u>	<u>(252,857)</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(252,857)</u>	<u>(256,457)</u>	<u>36,494</u>	<u>(292,951)</u>
Fund Balance - July 1	<u>210,778</u>	<u>210,778</u>	<u>210,778</u>	<u>-</u>
Fund Balance - June 30	<u>\$ (42,079)</u>	<u>\$ (45,679)</u>	<u>\$ 247,272</u>	<u>\$ 292,951</u>

AUDITORS' REPORTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
Willard City, Utah

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Willard City, Utah, as of and for the year ended June 30, 2005, which collectively comprise Willard City, Utah's basic financial statements and have issued our report thereon dated September 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Willard City, Utah's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Willard City, Utah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Honorable Mayor and City Council
Page 2

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wood Richards & Associates

Ogden, Utah
September 13, 2005

INDEPENDENT AUDITOR'S REPORT
STATE OF UTAH LEGAL COMPLIANCE

The Honorable Mayor and City Council
Willard City, Utah

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Willard City, Utah, for the year ended June 30, 2005 and have issued our report thereon dated September 13, 2005. As part of our audit, we have audited Willard City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major assistance programs from the State of Utah.

C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The City did not receive any nonmajor State grants during the year ended June 30, 2005.

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation & Property
Tax Limitations

Liquor Law Enforcement
Justice Court
B & C Road Funds
Other General Compliance Issues
Uniform Building Code Standards
Impact Fees

The management of Willard City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

Independent Auditor's Report on State Legal Compliance
Page 2

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Willard City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

Wood Richards & Associates

September 13, 2005